

BEFORE THE ARIZONA CORPORATION C

1 2 **COMMISSIONERS** 3 JEFF HATCH-MILLER, Chairman WILLIAM A. MUNDELL MARC SPITZER MIKE GLEASON 5 KRISTIN K. MAYES 6 7 8 9 10 11 12 13 14

Arizona Corporation Commission DOCKETED

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DOCKETED BY

IN THE MATTER OF THE APPLICATION OF ACCIPITER COMMUNICATIONS, INC. TO EXTEND ITS CERTIFICATE OF CONVENIENCE AND NECESSITY IN MARICOPA COUNTY.

DOCKET NO. T-02847A-02-0641

67574 DECISION NO.

OPINION AND ORDER

DATE OF HEARING:

October 21, 2004

PLACE OF HEARING:

Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE:

Dwight D. Nodes

APPEARANCES:

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Mr. Jeffrey W. Crockett, SNELL & WILMER, on behalf of Accipiter Communications, Inc.; and

Ms. Maureen Scott, Staff Attorney, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

On August 22, 2002, Accipiter Communications, Inc. ("Accipiter" or "Company") filed an Application with the Arizona Corporation Commission ("Commission") to extend its Certificate of Convenience and Necessity ("CC&N" or "Certificate") to provide local exchange telephone service to an area in northwest Maricopa County, Arizona, near Lake Pleasant (Ex. A-1).

Qwest Corporation ("Qwest") requested intervention by motion filed August 29, 2002.

On December 17, 2002, Accipiter filed a letter stating that it had discussed with Owest the possibility of negotiating a resolution of Qwest's concerns with the Application. The letter also stated that Accipiter agreed to toll the applicable time clock requirements.

On December 22, 2003, Qwest filed a Response to Accipiter's Application (Ex. A-4). Qwest indicated that it resolved its issues and agreed to transfer four sections of its service area to Accipiter.

On February 18, 2004, Owest filed a letter renewing its intervention request and expressing

support for approval of Accipiter's Application.

On April 1, 2004, a Procedural Order was issued granting Owest intervention.

On April 1, 2004, a Procedural Order was issued granting Qwest intervention in this proceeding.

On May 12, 2004, Accipiter filed a Notice of Amendment of the Legal Description for the Requested Extension Area (Ex. A-2). Accipiter's Amendment to its Application indicated that it now seeks to include the parts of Qwest's service area that had previously been excluded so that Accipiter's CC&N would cover the entirety of the Vistancia housing development that consists of approximately 7,100 acres in Peoria, Arizona.

On June 10, 2004, the Commission's Utilities Division Staff ("Staff") filed a letter stating that Accipiter's Amended Application filed on May 12, 2004 was deemed sufficient pursuant to A.A.C. R14-2-502.

On September 7, 2004, Staff filed its Staff Report in this matter recommending approval of the Amended Application subject to certain conditions (Ex. S-1).

On September 17, 2004, a Procedural Order was issued setting a hearing for October 21, 2004, and directing the Company to mail notice to all property owners in the requested extension area and publish notice in a newspaper of general circulation in the extension area.

On September 27, 2004, Accipiter filed a Motion to Continue the Hearing Date for 60 days. The Company filed a request to withdraw its Motion to Continue on September 29, 2004.

On October 19, 2004, Accipiter filed a Notice of Filing of Proof of Publication and a letter certifying that the required notice had been sent to all property owners in the affected area (Ex. A-3).

On October 21, 2004, a hearing was convened before a duly authorized Administrative Law Judge of the Commission at its offices in Phoenix, Arizona. At the conclusion of the hearing, the matter was taken under advisement pending submission of certain late-filed exhibits and issuance of a Recommended Opinion and Order.

On November 5, 2004, Accipiter submitted the requested late-filed exhibits (Exs. A-7, A-8, and A-9).

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Having considered the entire record herein and being fully advised in the premises, the

Commission finds, concludes, and orders that:

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FINDINGS OF FACT

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Background and Overview of Application

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agreed to transfer to Accipiter.

1 According to Accipiter's President and CEO, Charles Gowder, Owest has no customers or facilities in the areas it has

- 1. Accipiter Communications, Inc. is a Nevada corporation that was initially granted a CC&N in Decision No. 59346 (October 11, 1995) to provide local exchange telecommunications services in portions of Maricopa and Yavapai counties, including the Castle Hot Springs and Lake Pleasant Regional Park areas.
- 2. Decision No. 59346 was amended by Decision No. 64843 (May 28, 2002) to permit Accipiter to change the name of its "Lake Pleasant" rate center to the "Phoenix 928" rate center, and to expand the Phoenix local calling area to include Accipiter's service area through an extended area service ("EAS") arrangement with US West Communications (nka Owest Corporation) (Ex. A-6).
- 3. On August 22, 2002, Accipiter filed an application in the above-captioned docket requesting an extension of its CC&N to include a proposed master-planned development then known as Lakeland Village/White Peak Ranch (nka "Vistancia"). At the time the application was filed, Accipiter was providing service to approximately 85 customers with a total of 207 access lines (Ex. S-1, at 1).
- 4. Qwest Corporation filed a Motion to Intervene on August 29, 2002. Qwest stated that Accipiter's requested extension area was within Qwest's service territory.
- 5. On December 17, 2002, the Company filed a letter stating that Accipiter and Owest intended to engage in settlement discussions regarding this matter, and that Accipiter agreed to waive the applicable time clock requirements set forth in A.A.C. R14-2-510(E). No additional filings were made in the docket until more than a year later.
- 6. On December 22, 2003, Qwest filed a Response to Accipiter's Application. In its Response, Owest indicated that, following discussions with Accipiter, Owest had agreed to transfer four sections of its service area to Accipiter¹ (Ex. A-4).
 - 7. On May 12, 2004, Accipiter filed an Amended Legal Description for the Requested

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Vistancia development, including the areas currently in Qwest's certificated service area. Accipiter claimed that at build-out, the Vistancia development is expected to include more than 17,000 housing units, 820 acres dedicated to commercial, mixed-use and business park facilities, school sites, golf courses, parks and other amenities. As of the date of Accipiter's letter, more than 350 homes had been sold in the development (Ex. A-2).

Accipiter stated that its amended extension area included the entirety of the

- 8. On June 10, 2004, Staff filed a letter stating that Accipiter's Amended Application was deemed sufficient in accordance with A.A.C. R14-2-502.
- 9. On September 7, 2004, Staff filed its Staff Report recommending approval of the Amended Application subject to certain conditions (Ex. S-1).
- 10. On September 17, 2004, a Procedural Order was issued setting a hearing for October 21, 2004, and directing the Company to mail notice to all property owners in the requested extension area and publish notice in a newspaper of general circulation in the extension area.
- 11. On September 27, 2004, Accipiter filed a Motion to Continue the Hearing Date for 60 days. The Company filed a request to withdraw its Motion to Continue on September 29, 2004.
- 12. On October 19, 2004, Accipiter filed a Notice of Filing of Proof of Publication and a letter certifying that the required notice had been sent to all property owners in the affected area (Ex. A-3).
- 13. The hearing in this matter was held as scheduled on October 21, 2004. The Administrative Law Judge requested that certain late-filed exhibits be submitted by November 5, 2004 (Tr. 82-83). Accipiter's counsel agreed to waive the time clock provisions applicable to this proceeding (Tr. 14).
- 14. On November 5, 2004, Accipiter filed the following late-filed exhibits: Vistancia Communications easement agreements (Ex. A-7); proposed language approving the inclusion of the new Accipiter exchange in Accipiter's existing EAS agreement with Qwest (Ex. A-8); and proposed language approving inclusion of the new Accipiter exchange in Accipiter's existing ETC-designated

area² (Ex. A-9).

15. According to the Staff Report, Accipiter was originally contacted by Shea Homes, the developer of Vistancia, to inquire about the ability of a single carrier to serve the entire development, as opposed to service being provided by multiple incumbent local exchange carriers ("ILECs"). As discussed above, Accipiter and Qwest eventually reached an agreement that would allow Accipiter to serve the entirety of the Vistancia development.

16. Through its responses to Staff data requests, Accipiter claimed that it intended to install state-of-the-art telecommunications facilities including a "fiber-to-the-curb" design that would enable the Company to provision a wide array of telephony and broadband services (Ex. S-1, at 2). Accipiter stated that it intends to invest approximately \$5.1 million over a five-year period to place new facilities in the proposed extension area. The Company indicated that it has existing Rural Utility Service ("RUS") funds available for construction of facilities to serve the extension area (*Id*. at 5).

Rate Center Alternatives

- 17. In the Staff Report, Staff stated that the requested extension area is physically located in the 623 Numbering Plan Area ("NPA") portion of the Phoenix rate center and is included in the Metro Phoenix local calling area. Although Accipiter's current service area is located in the 928 NPA, Accipiter's exchange has two-way EAS with the Phoenix area which allows the Company's customers to be part of the Metro Phoenix local calling area (*Id.* at 3).
- 18. Staff claims that it became aware during review of the Accipiter application that Cox Arizona Telecom, LLC ("Cox") is currently providing telecommunications services in the requested extension area. Cox is assigning numbers from its available 623 numbering resources, which Staff indicates is appropriate for the area and consistent with Cox's obligations under federal and state rules (*Id.*).
- 19. According to Staff, the transfer of a portion of Qwest's service area to Accipiter raises rate center and numbering issues for which Staff proposed the following alternative solutions: (1) that

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² Accipiter was designated as an Eligible Telecommunications Carrier ("ETC") for its service area in Decision No. 60549 (December 18, 1997). The ETC designation enables the Company to receive support from the federal universal service fund in order to provision service to high-cost areas.

the area code of the extension area be changed to 928 and be included in the Lake Pleasant rate center; (2) that the area code remain 623, and a new rate center and exchange in the 623 NPA be established for Accipiter; (3) that the area code remain 623 and Accipiter establish a new exchange in the 623 NPA of the Phoenix rate center; or (4) some other alternative. Staff requested comments from both Cox and Accipiter regarding these proposals. Although Cox submitted comments to Staff expressing concerns with the first two options, it did not suggest a specific preference for which of the alternatives should be adopted (Ex. S-5). Accipiter stated that it has the ability to implement any of the proposed alternatives, but indicated initially that the second option was less likely to cause customer confusion (Ex. S-3). Accipiter subsequently stated its preference for the third option (Ex. S-4). In the Staff Report, Staff discussed the various alternatives and concluded that the third option would be the least problematic because "there would appear to be no numbering issues and it would be less likely to cause customer confusion" (Ex. S-1, at 4).

- 20. In developing its recommendations in this docket, Staff indicated that resolution of the numbering issue is a critical element of this proceeding. Staff believes that its third alternative, which would leave the 623 area code and Phoenix rate center boundaries as they currently exist, would minimize impacts on customers, continue to promote efficient use of numbering resources, and would not reduce the opportunity for competition through the use of number portability. Staff therefore recommends approval of the transfer of the extension area from Qwest to Accipiter be granted, subject to the following conditions:
 - a) Accipiter must establish a new exchange for the extension area;
 - b) the new exchange would be made part of the Phoenix rate center;
 - c) the area code for the extension area would remain 623;
 - d) Accipiter would request its NPA 623 numbers for the extension area at the thousands-block level from the National Pooling Administrator;
 - e) Accipiter and Qwest would update their respective tariffs within 30 days of a Commission Decision to reflect transfer of the service area; and
 - f) Accipiter would charge its existing rates and charges in the extension area until further order of the Commission.
- 21. At the hearing, Accipiter's President and CEO, Mr. Gowder, stated that Accipiter agreed to comply with all of the Staff recommendations as a condition of being authorized to extend

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its CC&N (Tr. 15-17).

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Vistancia Easement and Exclusive Marketing Arrangement

- 22. Mr. Gowder also testified that Accipiter had recently discovered the existence of two matters that caused concern for the Company. The developer of Vistancia, Shea Sunbelt Pleasant Point, LLC ("Shea"), has entered into an agreement called "Common Services Easements and Restrictions" (Ex. A-7) with Vistancia Communications, LLC ("Vistancia Communications"), an entity that is wholly owned by Shea. Under this recorded easement, any telecommunications provider that operates in the Vistancia development would be required to pay Vistancia Communications a fee of \$500,000 for the privilege of extending its facilities across the easement. Full payment of the \$500,000 fee would be due at the time the provider begins to serve its first customer in each phase of the development. Thus, according to Mr. Gowder, if Accipiter were to construct facilities in the first phase of the development called Trilogy, the Company must pay \$500,000 to Vistancia Communications when its first customer is served. A second \$500,000 would be owed to Vistancia Communications at the time Accipiter served its first customer in the second phase of the development, under the recorded easement (Tr. 23-24). The Shea easement also requires revenue sharing with Vistancia Communications for both residential and business customers. Due to the restrictions imposed by the easement, as well as an exclusive marketing arrangement with Cox (see discussion below), Mr. Gowder expressed concern about Accipiter's ability to achieve significant market penetration in Vistancia (Tr. 31). Mr. Gowder also stated that no other utility service providers (i.e., gas, electric, water, or wastewater) are subject to the easement (Tr. 41).
- 23. Given the existence of the easement, Accipiter is evaluating various alternatives for providing service in Vistancia, including payment of the fees required under the easement (Tr. 73) or providing service with "fixed wireless" technology. Mr. Gowder indicated that the fixed wireless option is likely the most cost-effective alternative because it would allow Accipiter to serve Vistancia without building facilities across the restricted easement³. Mr. Gowder described fixed wireless technology as a "point-to-point telephone service that looks just like wireline services except that it's

³ Although it is not entirely clear that using fixed wireless to circumvent the easement restrictions would be permitted by Vistancia Communications, counsel for Accipiter does not believe the easement would restrict the fixed wireless option because no physical facilities would need to be installed across the easement (Tr. 75).

provided over a wireless link from a tower..." (Tr. 34). According to Mr. Gowder, service provided by fixed wireless would require the customer to receive a signal through a small antenna on the customer's home, but would otherwise be equivalent to service provided by landline facilities (Id.). Fixed wireless would enable Accipiter to provide voice, broadband, and several megabits of internet access (Tr. 52). Mr. Gowder stated that Accipiter could have fixed wireless facilities in place to serve Vistancia within 120 to 180 days from commencement of construction (Tr. 55).

- 24. Counsel for Accipiter stated that the Company is also evaluating whether the easement is legally valid. According to Accipiter's counsel, Qwest advised the Company that it was aware of only one other place in the country where such a telecommunications easement was in place. Accipiter believes that the easement may violate Section 253 of the Telecommunications Act of 1996 (47 U.S.C. 253)⁴, which prohibits municipalities from erecting barriers to entry. The Company indicated that the easement may also be invalid under a utility company's right of condemnation. Accipiter is concerned that similar restrictions may occur in other developments unless a legal challenge is raised. Despite the ongoing uncertainty with respect to the easement's legality, Accipiter requests that the Commission grant the CC&N extension sought in this proceeding to ensure that the Company has legal standing to challenge the restrictions (Tr. 70-75).
- 25. Accipiter also recently became aware of the existence of an exclusive marketing agreement between the developer and Cox which, according to Mr. Gowder, prohibits any other telecommunications provider from marketing its services within the Vistancia development, including locating within model homes in the development. Although Accipiter is aware of the existence of the exclusive marketing agreement with Cox, the Company has not seen the actual agreement because it is considered confidential by the parties to the agreement. Mr. Gowder testified that, as a result of the agreement, Accipiter's marketing efforts for Vistancia customers would be limited to electronic and print media, as well as perhaps locating a store in an area adjacent to the development (Tr. 20-22, 50). According to Mr. Gowder, Cox has constructed facilities and is currently serving customers in the

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⁴ 47 U.S.C. 253(a) provides: "No State or local statute or regulation, or other State or local legal requirement, may prohibit or have the effect of prohibiting the ability of any entity to provide any interstate or intrastate telecommunications service." 47 U.S.C. 253(d) allows the Federal Communications Commission to preempt enforcement of any such statute, regulation or legal requirement to the extent necessary "to correct such violation or inconsistency."

Vistancia development (Tr. 35).

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Staff supports issuance of the requested CC&N extension to Accipiter, subject to 26. compliance with the conditions described above. Staff's witness, Richard Boyles, indicated that Staff was unaware of the specifics of the easement until the hearing in this proceeding (Tr. 60). Mr. Boyles stated that fixed wireless technology is sometimes used in rural markets as an equivalent replacement for wireline loops, and therefore Staff is not concerned with Accipiter's proposal to use fixed wireless as a means of serving customers in the CC&N extension area (Tr. 63-64). With respect to the legal issues raised in this docket, Staff counsel indicated that the easement discussed in this proceeding is the first arrangement of its type that has come to Staff's attention. Due to the seriousness of these issues, Staff intends to request that a generic docket be opened by the Commission to address the preferred provider arrangements described herein. Staff believes the generic docket should consider the impact on other carriers' ability to effectively provide service under both exclusive marketing and restrictive easement arrangements (Tr. 76-78).

Discussion and Resolution

- 27. We believe Staff's recommendation for approval of Accipiter's amended application, subject to the Company's compliance with the conditions described in the Staff Report, is reasonable and should be adopted. In accordance with Staff's recommendation, Accipiter must establish a new exchange for the extension area being transferred from Qwest; the new exchange must be made part of the Phoenix rate center; the area code for the extension area will remain 623; and Accipiter must request its NPA 623 numbers for the extension area at the thousands-block level from the National Pooling Administrator.
- As indicated above, Decision No. 64843 (May 28, 2002) authorized Accipiter to 28. change the name of its "Lake Pleasant" rate center to the "Phoenix 928" rate center, and to expand the Phoenix local calling area to include Accipiter's service area through a two-way EAS arrangement with Qwest (Ex. A-6). We believe that future customers served by Accipiter in the requested extension area should also have the benefit of two-way EAS with the Metro Phoenix calling area. We therefore direct Accipiter to work with Owest to modify the existing EAS agreement in order to include the new Accipiter exchange.

- 29. We also noted above that Accipiter was designated as an eligible ETC for its current service area in Decision No. 60549 (December 18, 1997). Accipiter has committed that it will provide and advertise ETC-supported services throughout the new Accipiter exchange (Ex. A-9). We agree with the Company and Staff that the new Accipiter exchange should be included in Accipiter's ETC-designated area.
- 30. Although we believe Accipiter's CC&N extension request is in the public interest and should be approved, concerns have been expressed by counsel for Accipiter and Staff regarding the legality of the arrangements implemented by the developer of Vistancia. Even a cursory review of the exclusive marketing and restrictive easement arrangements raises concerns about the chilling effect that such arrangements may have on the ability of telecommunications providers to fairly compete, and on customers' ability to have a choice of providers and services. We believe such arrangements may be antithetical to the purpose of the federal Telecommunications Act, as well as our stated policies and rules encouraging competition and choice in the telecommunications industry. Therefore, we believe it is prudent to direct Staff to initiate, within 30 days, an investigation of the issues raised in this proceeding through a generic docket. This generic docket should include an investigation of the legal issues associated with exclusive marketing and/or restrictive easement arrangements.

CONCLUSIONS OF LAW

- 1. Accipiter is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§40-281, 40-282 and 40-285.
- 2. The Commission has jurisdiction over Accipiter and the subject matter of the application.
 - 3. Notice of the application was given in the manner described herein.
- 4. There is a public need and necessity for telecommunications services in the requested extension area.
- 5. Accipiter is a fit and proper entity to receive an extension of its telecommunications CC&N to include the service area more fully described in Exhibit A hereto.

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ORDER

IT IS THEREFORE ORDERED that, subject to compliance with the conditions described above in Staff's recommendations, the application of Accipiter Communications, Inc. for an extension of the service area under its Certificate of Convenience and Necessity to include the area described in Exhibit A attached hereto and incorporated by reference be, and is hereby approved.

IT IS FURTHER ORDERED that, as a condition of transfer of the requested sections of land from Owest Corporation's service area, and extension of Accipiter Communications, Inc.'s CC&N to include those areas, Accipiter Communications, Inc. shall: establish a new exchange for the extension area being transferred from Qwest; establish a new exchange that will be made part of the Phoenix rate center; maintain the current 623 area code for the extension area; and request its NPA 623 numbers for the extension area at the thousands-block level from the National Pooling Administrator.

IT IS FURTHER ORDERED that the new Accipiter exchange shall be included in Accipiter Communications, Inc.'s ETC-designated area.

IT IS FURTHER ORDERED that Accipiter Communications, Inc. and Owest Corporation shall work to modify the EAS Agreement between the parties to include the new Accipiter exchange.

IT IS FURTHER ORDERED that Accipiter Communications, Inc. and Qwest Corporation shall update their respective tariffs within 30 days of the effective date of this Decision to reflect transfer of the service area from Owest to Accipiter.

IT IS FURTHER ORDERED that Accipiter Communications, Inc. shall charge its existing rates and charges in the extension area until further order of the Commission.

. . .

IT IS FURTHER ORDERED that Staff shall initiate a generic docket, within 30 days of the effective date of this Decision, to consider issues involving exclusive marketing and/or restrictive easement arrangements. This generic docket should include an investigation of the legal and policy issues associated with exclusive marketing and/or restrictive easement arrangements.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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ä	IN WITNESS WHEREOF I I	RRIAN C McNEII Executive

Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 15th day of Feb. , 2005.

EXECUTIVE SECRETARY

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1 SERVICE LIST FOR: ACCIPITER COMMUNICATIONS, INC. 2 **DOCKET NO.:** T-02847A-02-0641 3 Jeffrey W. Crockett SNELL & WILMER 4 One Arizona Center 5 Phoenix, AZ 85004 Attorneys for Accipiter Communications, Inc. 6 **Timothy Berg** 7 FENNÉMORE CRAIG 3003 North Central Avenue, Ste. 2600 Phoenix, AZ 85012-2913 Attorneys for Qwest Corporation Christopher Kempley, Chief Counsel ARIZONA CORPORATION COMMISSION 10 Legal Division 11 1200 West Washington Phoenix, AZ 85007 12 Ernest Johnson, Director 13 **Utilities Division** ARIZONA CORPORATION COMMISSION 14 1200 West Washington Street Phoenix, Arizona 85007 15 16 17 18 19 20 21 22 23 24 25 26 27

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ACCIPITER COMMUNICATIONS, INC. DOCKET NO. T-02847A-02-0641 AMENDED LEGAL DESCRIPTION

All of Sections 25, 26 and 35, Township 5 North, Range 1 West, and Section 30, Township 5 North, Range 1 East, of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

In its original application, Accipiter had excluded from the requested extension area three parcels in Sections 26 and 35, Township 5 North, Range 1 West, and a large part of Section 30, Township 5 North, Range 1 East. However, Accipiter now seeks to amend its application and the requested extension area to include <u>all</u> of Sections 26 and 35, Township 5 North, Range 1 West, and all of Section 30, Township 5 North, Range 1 East.

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Accipiter

Qwest

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